Why the Railways Must Have Larger Revenues

THE railways have applied to the Interstate Commerce Commission for permission to increase their revenues by raising freight rates 15 per cent. Losses of railway traffic have been so great in recent months that an emergency has arisen which not only threatens the continuance of efficient rail service, but also even endangers the financial stability of the steam lines. The facts regarding the present railway situation are as follows:

1. The return earned on railway property value amounted to only 3½ per cent in 1930. In the first four months of 1931 the railways were earning a return running at the annual rate of only 2¼ per cent.

2. Even these earnings were made possible only by the most drastic economy, including the postponement of maintenance work which must be made up in the future. Had it not been for this deferred maintenance, railway net returns would have been even lower than the figures shown above.

3. These drastic economies, which the roads have been forced to make, have resulted in the furlough of many thousands of railway employees, with the consequent loss to agriculture and industry in general of the purchasing power of these men. These forced economies have also materially reduced railway pur-

chases of materials and supplies, with a consequent decrease in employment in those industries which normally sell much of their output to the railways.

4. Present low earnings threaten to destroy the ability of the railways to secure new capital for investment in their properties to increase efficiency and economy of operation.

5. If the railways were permitted to participate in periods of prosperity equally with other business they should make equal sacrifices in times of depression, but they are denied such participation by law. Even in periods of prosperity, the return earned on railway property has been small and inadequate.

6. According to the Transportation Act of 1920 the railways are entitled to a fair return upon the value of their transportation property. For the past nine years this fair return rate has been set at 5¾ per cent. In no year since the law was passed, however, have the railways been allowed to earn this fair return, and their total shortage below this amount, in the period 1921-1930, was $2,575,000,000.

7. The theory of the law is that the railways represent private property devoted to public use. Because of this public use, they are required to forego chances for high profits in prosperous times in return for the supposed assurance of fair earnings. If, however, a fair

return is never received even in the most prosperous years, and the railways are then expected to stand heavy reductions in earnings in poor years, our railway system cannot be maintained. Funds will not be invested in an industry which suffers all the evil effects of hard times and enjoys none of the benefits of good times.

In brief, the railways must have higher revenues because their business has suffered such losses, both through the depression and through subsidized and unregulated competition on highways and waterways, that present earnings are not sufficiently high to maintain efficient railway service and railway credit. A freight rate increase is the only way in which the existing emergency can be speedily met.

The railways are not now seeking to obtain the fair return to which they are legally entitled. Even with a 15 per cent increase in freight rates they would earn, under present traffic conditions, an annual return of less than 4 per cent on the value of their properties. They are asking only for such an increase as is absolutely essential if they are to maintain their service and their credit. The 15 per cent advance in freight rates now sought by the railways is far less than the losses which the public will sustain, both now and in the future, if railway service breaks down and railway credit is destroyed.